

State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

IDAHO COMMISSION ON THE ARTS

FY 2007, 2008, AND 2009

Report IC19609

Date Issued: November 23, 2010

Serving Idaho's Citizen Legislature



Don H. Berg, CGFM, Manager

Idaho Legislative Services Office
Legislative Audits Division

IDAHO COMMISSION ON THE ARTS

SUMMARY

PURPOSE OF MANAGEMENT REPORT

We conducted a management review of the Idaho Commission on the Arts covering the fiscal years ended June 30, 2007, 2008, and 2009. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We identified significant conditions and weaknesses in the general administrative and accounting controls of the Commission, as indicated by the findings below.

FINDINGS AND RECOMMENDATIONS

There are four findings and recommendations in this report.

Finding 1 – Entertainment and related costs of \$5,100 are not allowable under federal regulations or Idaho Code.

Finding 2 – Federal funds are requested based on unsupported estimates.

Finding 3 – No process exists to ensure that federal funds received in advance are for costs incurred within 30 days as required.

Finding 4 – The large quantity of errors and adjustment transactions indicates the need for improved oversight and review.

The complete findings are detailed on pages 1 through 3.

PRIOR FINDINGS AND RECOMMENDATIONS

There were four findings and recommendations in the prior report.

Prior Finding 1 – The ACCESS database is not reconciled to the STARS accounting system, resulting in unsupported financial reports to the Commission's Board.

We recommended that the Commission establish a monthly reconciliation process between the ACCESS and STARS data performed at the sub-object level for both expenditures and revenues. We also recommended that budget reports presented to the Board clearly identify original and adjusted amounts and include explanations to support those adjustments.

A reconciliation is no longer needed since the Commission no longer uses ACCESS in preparing financial reports. The Commission also established a policy that the original budget and any amendments will be approved by the Board. **Status: CLOSED**

Prior Finding 2 – The high volume of expenditure adjustments and coding errors indicate the need for improved oversight and review.

We recommended that the Commission improve the oversight and review process to reduce the need for adjustments, improve the documentation that supports the adjustments, and improve the overall reliability of the financial information.

This finding was originally closed because the Commission began to use the "Payment Services" application to process expenditures. The Commission also established a process that requires one person to enter the transaction and one person to review the transaction for accurate data entry. In addition, there is a review performed by the deputy director prior to releasing the expenditure into STARS. However, this finding is repeated as Finding 4. **Status: CLOSED**

Prior Finding 3 – Federal funds are drawn early in error.

We recommended that the Commission comply with the policy for drawing federal funds, and document the review and approval processes with a comparison of the cash balance prior to each draw. We also recommended that estimates used to support the draw amounts be based on prior year expenditures that are net of adjustments.

This finding was originally closed because the Commission revised its policy for drawing federal funds. The draws were based on estimated future cash flow needs using prior year expenditures for the same period and necessary adjustments for non-routine transactions. The amounts of federal draw requests were being reviewed and adequately supported and documented. However, a portion of this finding is repeated with additional information as Finding 2. **Status: CLOSED**

Prior Finding 4 – A gift to a Commissioner exceeded the limits allowed by Idaho Code.

We recommended that the Commission strengthen controls and the review processes to ensure that all expenditures are in compliance with Idaho Code. Gifts should be limited to no more than \$50, and any contributions unrelated to the Commission's programs should be accounted for separately and not commingled with State funds.

The Commission communicated to the Board and staff members that there are limits on the amount that can be gifted to the Commissioners from the agency, and private contributions for such gifts are to be kept separate from State funds. The director is committed to compliance with laws and regulations and has communicated this to the deputy director and Board chairman. The director has also established a line of communication should any questionable actions arise in the future. **Status: CLOSED**

AGENCY RESPONSE

The agency has reviewed the report and submitted a detailed response.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

IDAHO COMMISSION ON THE ARTS – FISCAL YEAR 2009

Fund	Title	Beginning			
		Cash/ Appropriation	Receipts/ Transfers In	Disbursements/ Transfers Out	Ending Cash/ Appropriation
0001	General Fund	\$894,800	\$0	\$883,947	\$10,853
0346	American Reinvestment Fund	0	10,002	9,273	729
0348	Federal Fund	36,620	725,850	752,327	10,143
0349	Miscellaneous Revenue Fund	56,430	32,283	11,650	77,063
	Total	<u>\$987,850</u>	<u>\$768,135</u>	<u>\$1,657,197</u>	<u>\$98,788</u>

OTHER INFORMATION

We discussed other issues which, if changed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Idaho Commission on the Arts and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the executive director, Michael Faison, and his staff.

ASSIGNED STAFF

Lori Hendon, CPA, Managing Auditor

Jolene Crumley, In-Charge Auditor

Maresa Blessinger, Staff Auditor

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FINDINGS AND RECOMMENDATIONS

FINDING 2009S-1

Entertainment and related costs of \$5,100 are not allowable under federal regulations or Idaho Code.

Federal regulations (2 CFR 225, Appendix B) strictly prohibit the use of federal funds for entertainment and related costs, such as show tickets, meals, transportation, and gratuities. Idaho Code, Sections 67-2010 and 67-2011, require that all costs be necessary in the public service.

The Commission sponsored a conference to educate eligible art organizations on the Commission's American Reinvestment and Recovery Act (ARRA) grant application requirements. Costs incurred included approximately \$5,100 for a variety of entertainment activities, including Shakespeare Festival theater tickets, transportation to the theater, a café meal for attendees, and a musical performance. None of these costs are allowable under federal regulations or meet the purposes and limitations defined in Idaho Code.

RECOMMENDATION

We recommend that the Commission comply with federal regulations and Idaho Code when incurring costs to assure amounts are allowable and necessary in the public service.

AGENCY'S RESPONSE AND CORRECTIVE ACTION PLAN

Activities and performances of such non-profit arts institutions and ensembles are not classified as commercial entertainment. Though entertaining, by virtue of their enjoyable nature, they are federally subsidized as educational activities. The agency supports such activities in the course of its statutory work, in partnership with the National Endowment for the Arts. The activities of arts managers from across Idaho, in such work, were integral to the professional development aims of this conference.

The conference prepared Idaho arts leaders to apply for these public grants, and it included training in use of an electronic "Cash Flow Forecaster," collaborative facilitated work, and modeled professional-artistic and audience-experience excellence. All this was to prepare participants to complete strong applications for one-time federal/state funding and to extend the beneficial impact long after the opportunity had expired. The professional arts experiences modeled programming excellence, reinforced the core missions of the applicants, enhanced team-building, and included an introductory speech from the stage of a publicly-funded arts event, concerning the public role of arts institutions in Idaho.

The conference spanned one-and-a-half days, including an overnight stay. With work going well into the evening and continuing the next day, a box dinner customarily is considered an appropriate expense.

FINDING 2009S-2

Federal funds are requested based on unsupported estimates.

Federal regulations require the Commission follow established timeframes and methods for calculating requests for federal funds. The use of estimates is allowable, but must directly relate to the program's cash needs. For National Endowment for the Arts (NEA) grants, the federal grantor provides a formula to determine the amount of federal funds to request.

The Commission uses estimates to request federal funds; however, these amounts are not fully documented. Parts of the estimates involve payroll costs and outstanding sub-grantee payments, which are reasonable but are not formally documented. Anticipated expenses are also included in the estimates, but these amounts are not clearly defined or documented. We also noted that requests for federal funds on the NEA Grant did not follow the formula provided by the grantor.

RECOMMENDATION

We recommend that the Commission document and retain support for the estimates used to request federal funds. We also recommend that the Commission use the formula provided by the federal grantor to request funds on the NEA Grant.

AGENCY'S RESPONSE AND CORRECTIVE ACTION PLAN

In order that future federal fund requests are based on actual expenses of the prior month rather than estimates for the next money, the agency is working with the Division of Financial Management and has requested a line of credit.

FINDING 2009S-3

No process exists to ensure that federal funds received in advance are for costs incurred within 30 days, as required.

Federal regulations over NEA Grants received by the Commission allow federal funds to be requested in advance and/or on a reimbursement basis. Funds requested in advance must be for costs incurred within 30 days from the date the request form is signed by the Commission's authorizing official. Funds should be disbursed immediately upon receipt and any excess funds returned promptly to the federal grantor.

The Commission requests federal funds in advance to provide cash flow and had more than \$107,000 in federal funds on hand at June 30, 2010. However, no formal process or records exist to ensure that these funds are disbursed as required.

RECOMMENDATION

We recommend that the Commission comply with federal regulations over federal funds requested and consider requesting a borrowing limit from the Division of Financial Management to eliminate the need to request funds in advance.

AGENCY'S RESPONSE AND CORRECTIVE ACTION PLAN

Establishment of a line of credit would enable the agency to expend federal funds on a reimbursement basis, thereby eliminating the possibility that federal funds would be held beyond 30 days.

FINDING 2009S-4

The large quantity of errors and adjustment transactions indicates the need for improved oversight and review.

Adjustment transactions are sometimes necessary to correct errors or realign costs to the appropriate funding source. However, the Commission posted more than 560 adjustments during fiscal year 2009, many of which occurred several months after the original transaction and were not properly supported or documented.

We noted multiple adjustments to correct revenue and expenditures that were coded to the wrong fund, program, or sub-object, and that these errors continued to occur in subsequent periods. In addition, some errors were only partially corrected while others were undetected or adjusted in error.

Transactions are initiated and entered by one staff member, initially reviewed by another staff member, and then reviewed and approved by the deputy director. The large quantity of errors and adjustment transactions indicates the need to evaluate the process and provide additional training to reduce the accounting workload and improve the reliability of the financial information.

RECOMMENDATION

We recommend that the Commission evaluate the entry and review process for recording transactions, and provide additional training as necessary to reduce the volume of errors and adjustment transactions.

AGENCY'S RESPONSE AND CORRECTIVE ACTION PLAN

In FY 2009, the agency implemented the online payment services system and should show decreased adjustments beginning in FY 2010. The agency, furthermore, proposes to establish an expense-allocation policy to specify that prior-year federal funds be allocated before current-year federal funds are accessed, within given grant restrictions. This would eliminate the current need to reallocate expenses later in the year in order to close prior-year federal grants. In turn, this also would reduce administrative staff workload. We expect this expense allocation policy to result in significant reductions in the quantity of adjustment transactions beginning with FY 2012.

AGENCY RESPONSE



November 10, 2010

C.L. "Butch" Otter
GOVERNOR

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Re: Legislative Services Office Management Report, FY 2007, 2008, 2009

I would like to thank your staff for the professionalism they demonstrated while at the Idaho Commission on the Arts. Both Ms. Jolene Crumley and Ms. Maresa Blessinger went out of their way to accommodate our daily operations and created little to no disruption in agency operations in the course of their duties. They were willing to answer questions, offer suggestions, and research those questions for which they did not have immediate answers. We wish also to thank Ms. Lori Hendron for her advice and guidance.

Finding 1- Entertainment and related costs of \$5,100 are not allowable under federal regulations or Idaho code.

Activities and performances of such non-profit arts institutions and ensembles are not classified as commercial entertainment. Though entertaining, by virtue of their enjoyable nature, they are federally subsidized as educational activities. The agency supports such activities in the course of its statutory work, in partnership with the National Endowment for the Arts. The activities of arts managers from across Idaho, in such work, were integral to the professional development aims of this conference.

The conference prepared Idaho arts leaders to apply for these public grants, and it included training in use of an electronic "Cash Flow Forecaster," collaborative facilitated work, and modeled professional-artistic and audience-experience excellence. All this was to prepare participants to complete strong applications for one-time federal/state funding and to extend the beneficial impact long after the opportunity had expired. The professional arts experiences modeled programming excellence, reinforced the core missions of the applicants, enhanced team-building, and included an introductory speech from the stage of a publicly-funded arts event, concerning the public role of arts institutions in Idaho.

The conference spanned one-and-a-half days, including an overnight stay. With work going well into the evening and continuing the next day, a box dinner customarily is considered an appropriate expense.

Finding 2- Federal funds are requested based on unsupported estimates.

In order that future federal fund requests are based on actual expenses of the prior month rather than estimates for the next month, the agency is working with the Division of Financial Management and has requested a line of credit.

Finding 3- No process exists to ensure that federal funds received in advance are for costs incurred within 30 days as required.

Establishment of a line of credit would enable the agency to expend federal funds on a reimbursement basis, thereby eliminating the possibility that federal funds would be held beyond 30 days.

Finding 4- The large quantity of errors and adjustment transactions indicates the need for improved oversight and review.

In FY 2009 the agency implemented the online payment services system and should show decreased adjustments beginning in FY 2010. The agency, furthermore, proposes to establish an expense-allocation policy to specify that prior-year federal funds be allocated before current-year federal funds are accessed, within given grant restrictions. This would eliminate the current need to reallocate expenses later in the year in order to close prior-year federal grants. In turn, this also would reduce administrative staff workload. We expect this expense allocation policy to result in significant reductions in the quantity of adjustment transactions beginning with FY 2012.

The Idaho Commission on the Arts takes seriously our role as stewards of the limited public dollars available for support of the arts in Idaho. We are grateful for the professional guidance of the Legislative Audits Division, Legislative Services Office.

If you have questions or concerns, please call 208-334-2119.

Sincerely,



Michael Faison
Executive Director

APPENDIX

HISTORY

The Governor of Idaho created the Idaho Commission on the Arts by Executive Order in 1966. The Commission was permanently established by the Idaho Legislature during its 1967 session. The Commission was moved under the Office of the Governor in 2004.

STATUTORY

Idaho Code, Title 67, Chapter 56, provides statutory authority for the Commission.

PURPOSE

The Commission is the State's primary cultural development agency. Its purpose is to:

- Provide all Idahoans opportunities for education and experience in quality visual, performing, literary, media, and traditional arts.
- Promote the arts as a basic part of education.
- Support individual artists in order to strengthen artistic excellence and management skills.
- Support organizations in order to enhance artistic excellence and management capabilities.
- Provide, as an advocate for the arts, responsible stewardship of financial and human resources entrusted to the Commission in the most effective and cost-efficient manner.

Activities of the Commission are summarized below:

- The Commission makes grants available to organizations that provide direct financial assistance to cultural organizations for high quality art projects that serve the people of Idaho.
- The Arts-in-Education Program places professional artists-in-residence in communities, encourages innovative efforts in art education, supports new partnerships between artists, educates students of all ages, and assists Idaho teachers with the development of innovative art education curriculums.
- The Community Development Program provides fee support to community sponsors for performances and exhibits, and provides management training and fee support for presenting organizations in rural communities with populations of 5,000 or less.
- The Folk Arts Program researches, documents, and preserves Idaho folk traditions through exhibitions, a slide-tape series on Idaho folk art, recordings of Idaho folk music, and Native American apprenticeships.
- The Public Information Program directs and facilitates the exchange of information between national/local artists and organizations, and publishes a bimonthly newsletter.
- The Artists Services Program provides cash awards to qualifying artists, in recognition of outstanding work, to enable artists to work with a master, or to support activities relevant to an artist's work and/or career.
- The Literature Program coordinates residency tours by Idaho's designated writer-in-residence, promoting interaction and appreciation for literature among the people of Idaho.

ORGANIZATION

The Idaho Commission on the Arts is under the Office of the Governor. The Commission's organizational structure operates independently from the umbrella office, except for budgetary purposes. The Commission comprises 13 private citizens of the State, who are widely known for

their interest, competence, and experience in the arts, appointed by the Governor to 4-year terms. A chair and vice-chair are designated by the Governor.

The Commissioners hire an executive director, who is responsible for the day-to-day operations and staff supervision.

FUNDING

General Fund 0001 – The General Fund appropriation is used for the Commission's administration; grants to individuals, organizations, and schools; and support for programs.

American Reinvestment Fund 0346 – This fund receives a federal grant administered by the NEA that is used to support art projects and activities, which preserve jobs in the nonprofit arts sector. The funding was provided by the American Recovery and Reinvestment Act of 2009.

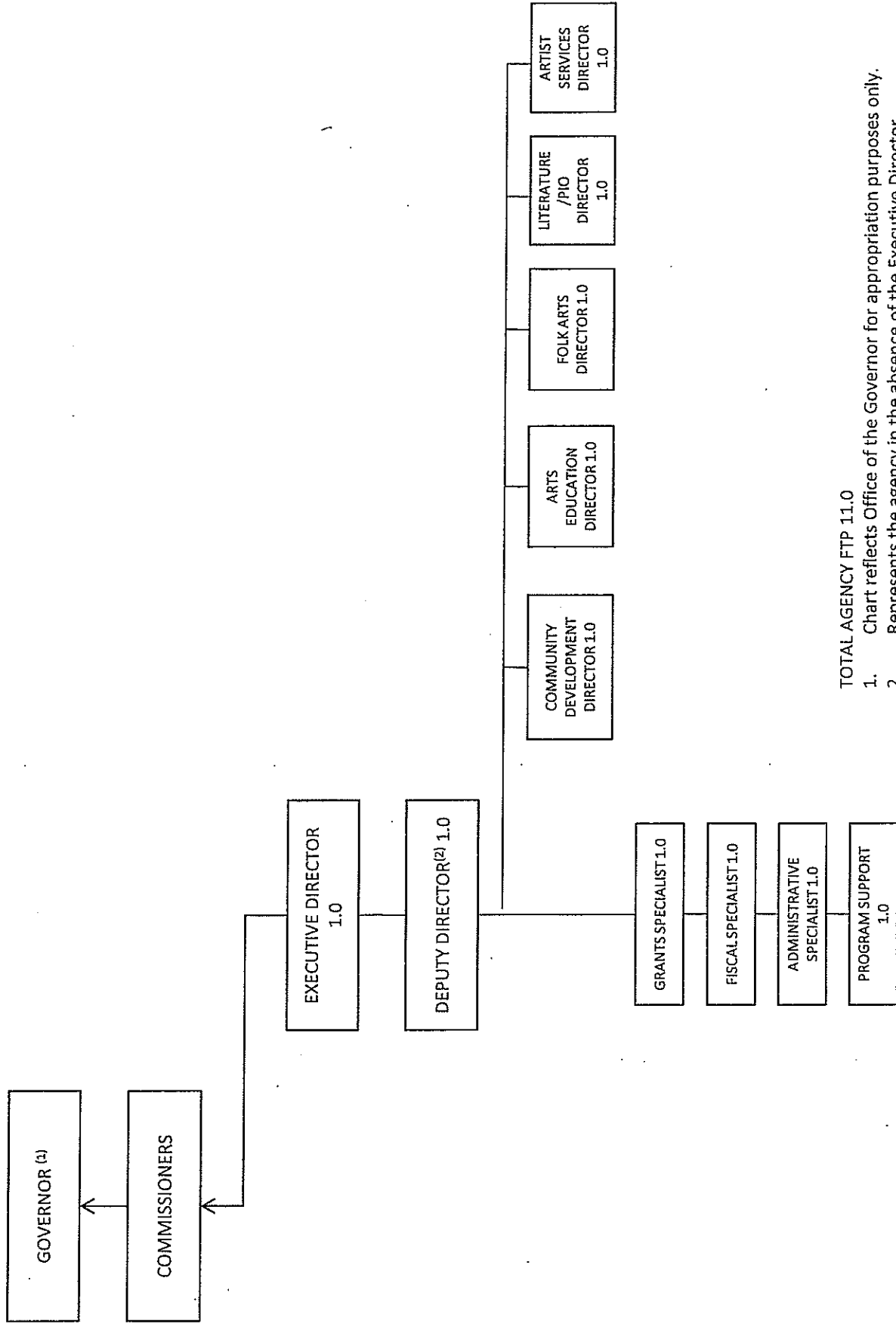
Federal Fund 0348 – This fund receives federal grants administered by the NEA that are used to cover administrative costs and to provide grants to individuals and organizations.

Miscellaneous Revenue Fund 0349 – Revenue is derived from conference registration fees, contributions from corporations and foundations for special projects, and private contributions. These funds are used to pay costs related to conferences, to conduct special projects funded by contributions, or to coordinate projects for corporations and foundations.

AGENCY: Idaho Commission on the Arts
FUNCTION: Idaho Commission on the Arts
ACTIVITY: NA

Agency: 196
Function: 03
Activity: 00

FY2011 Request
Page ___ of ___
Original Submission X or Revision No. ____



TOTAL AGENCY FTP 11.0

1. Chart reflects Office of the Governor for appropriation purposes only.
2. Represents the agency in the absence of the Executive Director.